

2017**M.Com. 4th Semester Examination****FINANCIAL STATEMENT ANALYSIS****PAPER—COM-404***Full Marks : 50**Time : 2 Hours**The figures in the margin indicate full marks.**Candidates are required to give their answers in their own words as far as practicable.**Illustrate the answers wherever necessary.***Unit - I****(Marks : 20)****1. Answer any two questions from the following : 2×5**

- (a) Star Limited specialized in the manufacture of a computer component. The component is currently sold for ₹ 1,000 and its variable cost is ₹ 800. For the year ended 31.12.2016 the company sold on an average 400 components per month.

At present the company grants one month credit to its customers. The company is thinking to extend the same to two months on account of which the following is expected :

(Turn Over)

Increase in sales	25%
Increase in stock	₹ 2,00,000
Increase in creditors	₹ 1,00,000
Increase in collection expenses	₹ 10,000
Additional bad debts	1%

You are required to advise the company on whether or not to extend the credit terms. Assume all the sales made on credit. 5

(b) What is Du Pont analysis of profitability of a firm? Explain and enumerate the elements of this analysis. 2+3

(c) Why are credit policies designed by firms? Briefly explain the various costs of maintaining debtors in a firm. 2+3

(d) "A Cash Flow Statement is a better substitute of Income Statement" — Critically examine. Are they really substitute? 5

2. Answer any one question from the following : 1×10

(a) On the basis of the following ratios, you are required to comment on the relative performance and position of the two companies belonging to the same industry :

<u>Ratio</u>	<u>JS Lts.</u>	<u>RS Ltd.</u>
Working capital ratio	2.08	2.17
Liquid ratio	0.92	0.31
Debt-equity ratio	1.90	0.50
Gross profit ratio	28%	19%
Net profit ratio	8%	8%
Return on capital employed	17%	12%
Return on net worth	15%	10%
Average debt collection period	47 days	62 days

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- (b) From the Balance Sheet of Bandopadhyay & Brothers Company Ltd. as on March 31, 2016 and 2017 and other information presented below, prepare a cash flow statement for the year ended 31st March, 2017.

	<u>2015-16</u> (₹ in thousands)	<u>2016-17</u> (₹ in thousands)
Assets :		
Cash	500	600
Bank	-	8,000
Sundry Debtors	80,000	64,200
Stock-in-trade	1,00,000	74,000
Machinery	1,50,000	1,69,000
Land and Building	2,00,000	1,90,000
Goodwill	-	5,000
	<u>5,30,500</u>	<u>5,10,800</u>

Liabilities :

Equity Capital	2,00,000	2,50,000
General Reserve	50,000	60,000
Profit & Loss Account	30,500	30,600
Bank Loan (Long term)	70,000	-
Sundry Creditors	1,50,000	1,35,200
Provision for taxation	30,000	35,000
	<u>5,30,500</u>	<u>5,10,800</u>

Additional Information during the year 2016-17 :

- (i) Dividend of ₹ 23,000 was paid.
- (ii) Assets (stock ₹ 20,000 and Machinery ₹ 25,000) of another company were purchased for a consideration of ₹ 50,000 payable on shares.
- (iii) Machinery was further purchased for ₹ 8,000.
- (iv) Depreciation on Machinery of ₹ 12,000 written off during the period.
- (v) Income tax provided during the year ₹ 33,000.
- (vi) Loss on sale of Machinery ₹ 200 was written off to general reserve.

Unit - II

(Marks : 20)

3. Answer any *two* of the following questions : 2×5
- (a) What do you understand by voluntary and involuntary stakeholders of a corporate ? How should the corporate oblige those stakeholders by discharging their social responsibility ? 2+3
- (b) Mention the different time frame set by the Ministry of Corporate Affairs (MCA) for the Indian corporate for mandatory adoption of IFRSs. 5
- (c) State the difficulties associated with the implementation of IFRS in the corporate world.
- (d) What is Segment Reporting ? When two or more operating segments are aggregated into a single segment ? Answer with reference to Ind AS-108. 2+3
4. Answer any *one* of the following questions : 1×10
- (a) (i) An Entity has six operating segments A-F (below). The revenues (internal and external), profits and assets of the segments are set out below. Identify the reportable segments of the entity with reference to Ind AS 108.

All the figures are in Rs. lakh

Segments	A	B	C	D	E	F	Total
Revenue	22	10	24	32	10	4	102
Profit/(loss)	3.2	-0.5	4	7	-1.3	-0.3	12.1
Assets	34	12	28	40	20	12	146

- (ii) Note down the minimum disclosures that the required to be made by the entity for such reportable segments. 6+4

- (b) NTPC of India has initiated a thermal power project in Katwa, Burdwan. The project has an initial investment of Rs. 2,000 crore spread over the three years as under :

Beginning of year 1	Beginning of year 2	Beginning of year 3
Rs. 1,000 crore	Rs. 600 crore	Rs. 400 crore

The project will earn revenues over its 30 years life. The present value of net cash flow as discounted at 6% comes to be Rs. 1,800 crore.

The project will generate other social benefits as under :

- (i) The project will generate the employment opportunity of skilled and unskilled labourers in production of bricks from fly ashes. The fly ash bricks will also reduce the environmental damages and waste disposal costs.

- (ii) The project will provide employment benefits to the skilled labour during its construction and its operational period.
- (iii) The project will provide revenue to the government in the form of taxes. The estimated present value of the above social benefits is computed as Rs. 430 crores.

The project will also have some social costs :

- (i) Health costs to workers.
- (ii) Increase in air pollution by increased emissions of carbon dioxide, sulphur dioxide, nitrogen oxide etc.
- (iii) Pollution of ground water and surface water due to liquid coal waste.
- (iv) Increased costs of power to end consumers due to rising fuel and coal costs.

The estimated present value of the above social costs is computed as Rs. 280 crore.

Savings of different benefitted groups of the project as estimated : (in Rs. crore)

Stakeholders	Net benefits	MPS
Government	500	0.6
NTPC	300	0.55
Workers	90	0.20

Assume that social value of saving of Re 1 for the public utility projects in India is 1.50.

Assume also that there is a negative impact on income distribution which amounts to Rs. 80 crore over the project life.

After considering the social cost-benefits of the project it is found that the social value of the project exceeds 40% over its economic value, as the project is involved in producing merit goods.

Make an appraisal of the project considering the social cost-benefit aspects applying UNIDO Approach.

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[Internal Assessment — 10 marks]
